

ICPS newsletter

Government forecast not realistic: Polish economists

Experts of the Polish Center for Social and Economic Research (CASE) evaluated the draft law "On the State Budget of Ukraine for 2000" and developed their own macroeconomic forecast for 2000 and 2001. Ms. Malgorzata Markiewicz and Ms. Katarzyna Pietka, CASE consultants, presented their research results at ICPS's macroeconomic seminar on October 12. Experts believe that the draft of the 2000 budget is based on over optimistic assumptions

According to the Polish economists, compared with budget drafts submitted in previous years, the draft 2000 budget has considerable advantages. Even the submission of a budget with a surplus is a decisive step forward. Including extrabudgetary funds in the State Budget will ensure greater transparency of the budget process. CASE specialists noted that for the first time, actual budget revenues were taken into account in implementing this draft budget.

Nevertheless, Polish experts did define a number of disadvantages of the draft 2000 budget. They believe that assumptions about privatisation revenues are too optimistic. Problems with tax arrears and mutual debt offsets are not resolved. And disputable macroeconomic indicators were applied in the budget's very underpinnings.

Polish specialists consider that the monetary base growth (17 percent) planned by the government for 2000 is understated. According to the CASE forecast, this indicator will be 60 percent, while the hryvnia depreciation rate will reach 32 percent rather than the 22 percent in the government predictions. Meanwhile, CASE experts believe that the anticipated 2 percent of GDP growth is overestimated. They forecast that this indicator will be 0.6 percent.

Polish experts stated that the

government forecast and the draft 2000 budget are unrealistic because of a \$1.6-billion financial gap. Planned payments in foreign currency exceed expected revenues by this same amount. This conclusion means that next year Ukraine will not be able to pay its external debts.

Examining the CASE forecast, participants of the seminar noted that it does not indicate if there is any way of overcoming the gap and if Ukraine has a chance to receive the financing it requires for serving its external debts.

According to Mr. Ruslan Piontkivsky, an ICPS economist, in 2000 the Ukrainian government will be able to prevent the appearance of a financial gap and attract additional funds, but only under the following conditions:

- implementing economic policy focused on long-term growth that will be supported by the IMF, the World Bank, and foreign private investors;
- expediting the privatisation of Ukraine's largest enterprise oriented towards strategic foreign investors;
- facilitating exports.

ICPS's macroeconomic seminar on "Evaluation of the Budget-2000 and its Macroeconomic Consequences in 2000-2001" was held on October 12.

Coordination and Analysis Centre strives for better business conditions

A meeting of the Board of the Coordination and Analysis Centre for Ukrainian Business Associations (CACUBA) was held on October 13. The Board summed up the results of the last five months' activity and determined areas of further work. The Coordination and Analysis Centre, co-founded by ICPS, directs its efforts at analysing draft laws of Ukraine relevant to entrepreneurial activity, and evaluating the effectiveness of their implementation.

Lobbying business interests

Development of the draft Law of Ukraine "On licensing" is a priority of CACUBA's current work, carried out jointly with the State Licensing Chamber of Ukraine on behalf of the Verkhovna Rada Committee on Economic Policy. This law should determine the exact list of activities to be licensed, and fix license-receiving procedures. The procedures should be based on a declarative principle, i.e., to receive a license an individual need only submit an application and register documents. After settling these formalities, business activity will be liable to documentary control and monitoring of performance of licensing terms regarding professional and technological quality.

The state should license only the activities which threaten human life, the environment, and safety, i.e., those which demand constant control. Alcohol and tobacco production, audits, and legal advice should be stricken off the list of licensed activities, as in this case the licensing does not fulfil a control mission but become a penalty for excess profit.

The last Board of the Coordination and

Last Week

ICPS promotes institutional partnership.

Mr. Victor Ursu, executive director of the Soros Foundation in Moldova, and Ms. Steliana Nedera, its coordinator, visited the International Centre for Policy Studies with the aim of studying the experience of ICPS as a public policy think tank providing analytical support for public development programs in Ukraine.

Managers and experts of ICPS's programs shared their knowledge regarding independent research development, implementation of technical assistance programs aimed at building the institutional capacity of government agencies, public participation in policymaking, and creating effective communication with ICPS partners.

ICPS is planning to regularly conduct such training for research institutions which are aimed at providing intellectual support for the policymaking process.

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This Week

Reform of inter-budget relationships.

ICPS's macroeconomic seminar, planned for October 19, will be devoted to the subject "Reforming Inter-Budget Relations in Ukraine". Participants will discuss the following questions:

1. Division of authorities:
 - between central government bodies and local government bodies
 - between government bodies at the local level
 - division of proper and delegated authorities in local budgets.
2. Budget reconciliation problems.
3. Calculating forecast revenues.
4. Investment and development budgets.
5. Financial support for joint programs (at raion and oblast levels).

The presentation will be given by Mr. Pavlo Kachur, deputy executive director of the Association of Ukrainian Cities.

Coordination and Analysis Centre...

Analytical Centre decided to commence a new campaign for the introduction of special trade licenses throughout Ukraine. Special License usage will promote the reduction of small business costs, which is required by tax legislation. Smaller costs will encourage enterprises to work legally, leading to budget revenue increases. This Board decided submit a proposition to the State Committee for Entrepreneurship to extend special trade licenses throughout Ukraine, and develop and submit a corresponding draft law to the Verkhovna Rada.

Mr. Dmytro Liapin, a CACUBA expert, noted that during September alone expert conclusions and comments on six draft laws were submitted to the Verkhovna Rada. Since new political activities have recommenced, people's deputies regularly receive an informational newsletter titled Civic arguments, containing evaluations of draft laws with regard to the social and economic development of Ukraine.

Small business development

During recent months, CACUBA specialists have actively participated in designing the draft National Program for Promoting Small Business Development. The Program is aimed at creating conditions for enforcing citizens' constitutional rights to conduct business activity, and improving the welfare of the Ukrainian population through supporting small business development.

Small business fulfils a number of important civil functions and provides an opportunity to every citizen to realise his/her talents and creative potential. Small business is an independent factor of economic growth that stimulates increased employment, innovations, competition, and market saturation with goods and services.

The Coordination and Analytical Centre devoted much time to the chapter on "The Role of Regulatory Policy in Developing Small Business". Implementation of state policy in the sphere of small business development

and support should ensure the effectiveness of market mechanisms, create sound legal conditions for realising private initiatives, and promote competition and legitimacy.

Changing policy regarding business

The Coordination and Analytical Centre will direct its further activity to achieving comprehensive changes of state policy regarding business.

The CACUBA is planning to actively promote the draft *Conception for the State Regulatory Policy* and convince the public of the critical need for such a conceptual plan. Ukraine's ability to overcome the economic crisis and achieve sustainable economic growth depends on introducing a consistent and predictable state regulatory policy. This Board decided to hold additional discussions on the draft with businesses at large.

The Coordination and Analytical Centre will continue its work on developing the draft *Concept for Reforming the National System of Standardisation, Certification, and Accreditation*. This Concept should solve the problem of the current system's inefficiency. CACUBA experts believe that the main cause of inefficiency of the national system of standardisation, certification, and accreditation is the system's deviation from the fundamental principles of state regulation used in Western countries. The current system contradicts the principle of preventing conflicts of interest (i.e., only standardisation and certification bodies are authorised to define policy, approve normative documents, and control their implementation), as well as principles of transparency, impartiality, and minimal sufficiency.

For detailed information about the activities of the Coordination and Analysis Centre for Ukrainian Business Associations see www.icps.kiev.ua/cec, or contact Dmytro Liapin and Ksenia Liapina, tel. (380-44) 466-4937/38.

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The International Centre for Policy Studies is an independent non-profit research organisation with the objective of improving the Ukrainian policy development process. This is achieved by increasing the know-how of key government officials for policy choices, formulation, and debate, and the awareness of the public-at-large of the benefits of policy.

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